

US: THE INDISPENSABLE TRADING

Diplomacy The diversity of US investments in Australia has been integral to our development, write Richard Holden, Simon Jackman and Jared Mondschein.

When the Prime Minister, Malcolm Turnbull, meets with President Trump in New York on Friday morning (AEST), the two men will undoubtedly speak of the many bonds linking the US and Australia. They will make important, if familiar, statements about our security alliance, shared cultural values and the length of our friendship, particularly given that the meeting will occur on the USS Intrepid on the 75th anniversary of the Battle of the Coral Sea.

Trump will also likely go out of his way to smooth over lingering tensions resulting from his infamous "phone call" with Turnbull by speaking on the resolute and steadfast nature of his support for Australia.

As important as all those issues are, the two leaders should also dwell on something that most Australians take for granted: the massive Australian-US economic relationship that has shaped Australia in more ways than many realise.

The value of this relationship is not necessarily obvious. Most Australians view China as our most important economic partner. To be sure, annual trade with China amounted to nearly \$150 billion in 2015, more than twice the trade with the US (\$70 billion). There is also no doubt that China's thirst for our country's natural resources helped Australia successfully avoid the worst of the global financial crisis.

Yet Foreign Minister Julie Bishop is spot on when she repeatedly refers to the US as "Australia's most important economic partner". Trade is one component of a broader economic picture. Cumulatively, two-way investment between the US and Australia totals \$145 trillion, dwarfing Australia's other bilateral economic relationships.

Deep economic relationships between liberal, market-based societies like Australia and the US are not merely about trade flows. Secure property rights and procedural fairness – backed by the rule of law and democratic political institutions in both countries – mean that Australia's economic relationship with the US spans access to capital, technological diffusion, and knowledge transfers. In each of these domains, the US is Australia's most valuable partner.

The total value of all US investments in Australia is estimated to be \$860 billion, \$360 billion more than Britain, the second-largest investor. While China has rapidly increased its levels of investment it is only

the seventh-largest, with total investments amounting to 8 per cent of that from the US. But what about the form and impact of these investments? Foreign investment in Australia takes four different forms: direct, portfolio, financial derivatives, and other investments. Foreign direct investment (FDI), defined as foreign ownership of 10 per cent or more of a company, makes up 24 per cent of total foreign investment in Australia.

Foreign portfolio investment, generally defined as foreign ownership of less than 10 per cent of a company, makes up 54 per cent of all foreign investment in Australia. Six per cent of foreign investment in Australia comprises financial derivatives, largely foreign currency hedging and the like, while the remaining 16 per cent is defined as "other investments" which covers items such as trade credits not defined elsewhere.

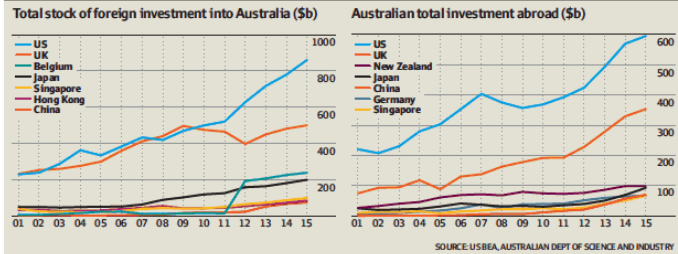
Given its more enduring nature, FDI is often seen as the most valuable form of foreign investment. The US – the largest single foreign direct investor into Australia for many years – accounts for nearly a quarter of all inbound FDI, totalling \$173.5 billion. From aerospace to agriculture, US direct investment is in practically every sector of Australia's economy.

Boeing, the world's largest aerospace company, has made Australia its largest base outside of the US, having invested about \$1 billion in its Australian operations over 90 years. With more than 3000 employees across 27 locations throughout Australia, Boeing is engaged in a wide variety of sectors, from the manufacturing of complex aircraft components to supply-chain management and defence platform support. The multiplier effects of such investments are enormous: In 2015 alone, Boeing spent about \$400 million at more than 1000 Australian suppliers.

Even smaller US companies, such as yoghurt maker Chobani, are proving valuable for Australia's economy. Established in Australia in 2011, Chobani invested over \$30 million and hired 200 staff in securing its first manufacturing facility outside of the US, located in Dandenong. Having added 3000 square metres of wet processing and coolroom facilities to its existing operations, it is exporting products sourced from Victorian dairy farmers to Asian markets.

While the stock and bond transactions that make up foreign portfolio investment are not perceived to have the "bricks and mortar" nation-building effect of FDI, their unique importance to Australia should not be underestimated.

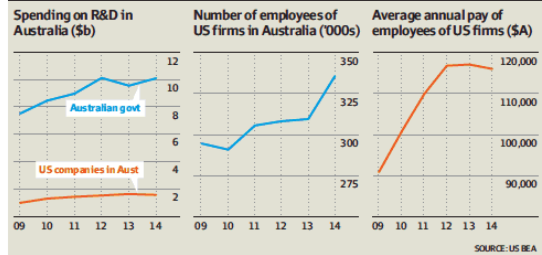
Finance flows



Australian Trade Minister Mark Vaile, left, and US Trade Representative Robert Zoellick sign the United States and Australia free trade agreement in 2014. PHOTO: AP



By the numbers



For almost its entire post-1788 history, economic observers classify Australia as relatively resource-rich but capital-poor. As the leading source of foreign portfolio investment – representing over a third of all foreign portfolio investment in Australia – the US has been indispensable in helping Australia address these structural features of our economy, geography and history. Exploiting Australia's mining resources requires massive capital expenditures, underscoring the importance of US-sourced portfolio investment.

Australia's big four banks – the four

largest companies on the ASX and crucial liquidity providers for the real economy – are profoundly dependent on access to US capital markets. Australian banks have a foreign funding ratio of 24 per cent, with 11.8 per cent of capital being foreign short term and "rolled over" on a regular basis. The one-quarter of the big four's funding coming from offshore sources is largely sourced from the US and is more than triple the amount that comes from shareholders.

Australians' home mortgages, our bridges, tunnels, dams, and roads depend on access to US capital and markets. US

MEN ON TESTOSTERONE MAKE BAD DECISIONS, FAST

Men's health Supplements may make subjects rely more on gut instinct, writes Health editor Jill Margo.

Although testosterone supplements increase men's confidence and their reliance on intuition, they decrease their need for reflection.

Novel research suggests men taking testosterone are more likely to shoot first and think about it later, if necessary.

A new study to be published in *Psychological Science*, one of the most influential journals in psychology, examined the underlying behavioural effects of testosterone supplementation.

It found testosterone increased reliance on gut instinct and made subjects mentally bold, in the belief they knew more than they really did.

Although other studies have linked testosterone with aggression and poor impulse control, the neuropsychological processes at work have remained poorly understood.

"Testosterone is about enhancing or protecting status," says study leader Professor Colin Camerer from Caltech, California's Institute of Technology.

Just as male apes might physically fight for supremacy in the wild, he says it is a solid guess that in a corporate office, one way male humans might display their status is through risk taking.

In the study, the males on testosterone took more mental risks. Rather than pausing to double check their answers, they tended to make snap judgments and then gamble on them being correct.

Camerer's team believes this phenomenon can be linked to testosterone's confidence-boosting effect in men. Recent studies have shown that confidence enhances status.

"If you're more confident, you'll feel like you're right and will not have enough self-doubt to correct mistakes," he said.

The study involved 240 randomly selected



Testosterone supplements may encourage men to shoot first and think about it later.

California college students who received either testosterone or a placebo in the form of a gel. They were all in their 20s and rubbed the gel on their shoulder.

Then their capacity for cognitive reflection was tested. The aim was to show the extent to which they could override incorrect intuitive judgments.

The men were all given a series of brain teasers. One posed the following question: A

bat and a ball cost \$1.10 in total. The bat costs \$1 more than the ball. How much does the ball cost?

For many, the first answer that came to mind was 10¢, but the correct answer is 5¢. To cost \$1 more, the bat would have to cost \$1.05.

The authors say a person prone to relying on gut instinct would be more likely to accept their first answer. Another, however, might realise their initial error and through cognitive reflection arrive at the correct answer.

Participants had no time limit in the test and were offered \$1 for each correct answer and an extra \$2 if they answered all the questions correctly.

Compared with the placebo group, the testosterone group scored significantly lower, on average answering 20 per cent fewer questions correctly.

The testosterone group also gave incorrect answers faster, and correct answers slower than the placebo group.

All the men were then given a math task to check their basic skills and ensure they were sufficiently engaged and motivated for the study. The differences that had appeared in the teaser test were absent from

PARTNER

financial markets – and access to them – drive liquidity in Australia's economy.

More than just money

While trade is ultimately an exchange of money for goods or services, foreign investment – particularly direct investment – often goes beyond a simple transaction. Although both trade and investment involve the transferring of funds, it is investment that habitually includes transfers of business strategies, technologies and resources.

The diversity of US investments in Australia across essentially all sectors of the economy – ranging from energy production and manufacturing to financial services and IT – has been integral to Australia's national development, often through the diffusion of US innovation and knowledge transfers. While it is not easy to determine just how much a host country benefits from foreign investment – economists continue to debate various measurements – there is no doubt that investment goes beyond simple infusions of money and has spillover effects.

Our discussions with Australian business leaders frequently highlight this point: US business leadership and expertise, whether through corporate boards or executive leadership, are critical catalysts for growth by Australian businesses.

Though the impact of foreign investment remains intangible by many measures, no statistic demonstrates the deep value of US investment in Australia better than the \$1 billion and more that US companies in Australia have annually spent on research and development since 2009. To put that into perspective, US companies in Australia spent over \$1.5 billion on R&D in 2014 while the Australian government pledged \$9.5 billion for R&D in 2013-2014.

Kimberly-Clark, the world's largest tissue manufacturer with more than 1300 employees across Australia, is but one example of this. Through a collaboration with the government's Commonwealth Scientific and Industrial Research Organisation and family-owned manufacturing company Textor Technologies, the Australian arm of Kimberly-Clark made a more absorbent nappy. The technology was later rolled out into Kimberly-Clark products across Australia, the US and Europe.

Broader picture of the relationship

This substantial economic relationship ultimately results not only in more jobs for Australians, but also higher-quality jobs. The most recent US government data estimates that US firms account for 335,400 jobs in Australia, with wages totalling \$38.8 billion – meaning that, on average, an Australian employee of a US firm earns over \$15,000 a year. The US benefits from being the single

largest destination of Australian investment. Australians have invested \$594 billion in the US, over eight times the \$70 billion that Australia invests in China.

Major Australian firms, ranging from biotechnology giants like CSL to innovative tech firms such as Atlassian, see the US not just as a large market, but also as a springboard to the world.

Despite the clear importance of the US-Australian economic relationship, there is a significant dearth of research on the topic. While a handful of analyses of the consequences of foreign investment in Australia exist, no robust work has sought to specifically analyse the impact of US investment in Australia.

To help remedy this, the United States Studies Centre is undertaking a multifaceted research project to deepen our understanding of the extent and value of this essential economic relationship. Macroeconomic analysis will be a core component of the study, but our work includes detailed case studies of US firms in Australia and a first-of-its-kind survey of Australian business leaders, assessing the often intangible role of US investment on their firms and the markets in which they operate.

Early conclusions

The data, case studies and anecdotes from the early stages of our research make it abundantly clear that US investments, knowledge transfers and technology have helped fuel Australia's trade surpluses with Asia.

No shortage of commentary insists that Australia faces a choice between a long-time ally in the US and an economic behemoth in China. This is naive at best, intellectually lazy at worst, a false dilemma that ignores much about the trajectory of Australia's economic development. Both China and the US are integral economic partners that have fuelled Australia's remarkable, recession-free quarter century.

Australia's security alliance with the United States will feature prominently in Turnbull's visit, with talk of shared values and sacrifice dating back a century. Amid increasing tensions in the Asia region, the security alliance should not be undervalued. But Trump and Turnbull would do well to point to Australia's economic relationship with the United States, a dynamic and vital cornerstone of our national prosperity – its relevance resting not on any appeal to values, but on a clear-eyed appreciation of our material interests.

Richard Holden is professor of economics at UNSW Business School and a visiting fellow at the United States Studies Centre at the University of Sydney. Simon Jackman is the CEO of the USSC, and Jared Mondschheim is a research associate at the USSC.

the simple maths test. When potentially confounding factors were taken into account, the authors said the results demonstrated a clear and robust causal effect of testosterone on human cognition and decision-making.

"We found the testosterone group was quicker to make snap judgments on brain teasers where your initial guess is usually wrong," said Camerer.

A pioneer in behavioural economics and in neuroeconomics, Camerer is interested in how psychological forces and their deeper neuroscientific foundations influence economic decisions in individuals and in markets. While the evidence is mixed, most suggests testosterone increases risk taking.

In this study, "the testosterone is either inhibiting the process of mentally checking your work or increasing the intuitive feeling that I'm definitely right", he said.

In addition to Caltech, the trial was conducted through the Wharton School, Western University and ZRT Laboratory in Oregon.

The results raise questions about potential negative effects of the growing testosterone-replacement therapy industry aiming to reverse the decline in sex drive of middle-aged men.

To try to figure out exactly what testosterone supplementation does for men, the US

National Institutes of Health funded a series of seven high-quality studies each investigating a different aspect.

Last year, the first of these so-called Testosterone Trials (TTrials), were released.

In a couple of aspects, although the metrics showed no statistically significant difference between men on testosterone and those on placebo, the men on testosterone felt an improvement.

The physical function trial looked for improvements in walking ability between the two groups. There was none, but those on testosterone believed they had improved.

The same occurred with vitality.

This first set of trials did show, however, that sexual function and desire improved significantly among men using the testosterone gel. Some mood improvements were noted, too.

The second set of trial results, released earlier this year, showed improvements in bone density and bone strength in men on testosterone.

They also showed improved iron levels in the blood of men with unexplained anaemia.

The jury is still out on the value of testosterone treatment for older men. There is ongoing concern about cardiovascular disease and the long-standing worry about the impact testosterone supplements have on the prostate.

Rear Window

From back page

spinner-turned-ABC journo Tracey Holmes's story about Kuwaiti Sheikh Ahmad Al-Fahad Al-Sabah standing down from FIFA after being implicated in the US Justice Department's probe into bribery and corruption at the world soccer body.

The same Sheikh whom Coates proudly awarded the AOC Olympic Merit award back in 2013. A photo of the pair shaking hands has now become an internet meme. Hashtag winning!

Ridge Forrester was right, as Vocus burns \$600m

Another day, another mid-cap meltdown. This time, it's former market darling and enterprise telco Vocus Group, which announced a profit downgrade well after dusk on Tuesday (7:0pm to be precise). That's not a good look – and that's just for starters!

Vocus shares were off 26.6 per cent in early trading on Wednesday, from \$3.35 to \$2.46, just short of RCG Corporation's front-on smash with the yoghurt truck on Monday (27 per cent). Isn't it amazing how something can be a \$2.1 billion company at 9.59am but a \$1.5 billion company at 10am?

On the company's February 22 interim results call, Macquarie analyst Andrew Levy asked chief executive Geoff Horth to "confirm that ... there are no lumpy one-offs that are being relied on to get across the line for the guidance number?" (which at that stage was between \$430 million and \$450 million). Here, Levy was referring to multi-year service contracts whose entire top-line Vocus was attempting to book as revenue in the current year.

"It's just about making sure we're transparent with that and call it out," Horth responded to Levy. "And so, if there are any one-off benefits in the second half, we'll be sure to tell you."



Geoff Horth

So why, in response to our questions on Wednesday, did Vocus admit that "none of the value of these contracts was included in the first-half result even though two of the contracts were paid pre-Christmas". If transparency is Horth's stated aim, why wait more than five months to disclose the very lump he was directly asked about by the street in February, at which time he already knew about? That's a \$40 million lump accounting for more than half the value (or loss thereof) of Vocus' downgrade.

Levy circulated this update yesterday: "This is a very disappointing update ..."

Vocus was relying on a very significant contribution from lumpy network sales ... to hit guidance to begin with" all along ...

Time for a large slice of humble pie: the man we called the Ridge Forrester of the public market, James Spenceley, was right.

George Christensen's Asian lapband draws ire of AMA ... and electorate

The news that North Queensland MP George Christensen has undergone lapband surgery was met with widespread dismay on Wednesday – and not only from the editors of *Good Weekend* magazine who have now been cruelly robbed of ever producing another Federal-MP-as-whip-



George Christensen

cracking-bull-dyke cover image.

The fact Not-So-Big-Anymore George went to Malaysia for the surgery to remove 85 per cent of his stomach, on a trip facilitated by the hilariously-named "Absolute Beauty Asia" in Melbourne, has drawn the ire of the Australian Medical Association and members of his own electorate.

A perplexed AMA Vice President Tony Barton told us while he was fully supportive of George's weight loss goals, he couldn't endorse the method.

"We have a world-class system here in Australia," he said. "Why would anyone, much less a federal MP, go overseas to have a procedure they can safely have here? Isn't it the government's job to support our own health system?"

"The only possible reason you might consider it is to avoid the \$15,000 cost, say if you didn't have private health insurance."

And it's not like he couldn't have had it done locally. Dr John Copp – a gastric band surgeon from Mackay, in Christensen's own electorate has performed over 800 lapband surgeries slap-bang in the middle of George's seat of Dawson.

Which begs the question, why didn't George have the procedure performed locally? And does he have private health insurance?

"I didn't intend to be a medical tourist. It just happened that way," Christensen told us in a statement. "Many surgeries in Australia are booked out for many months and even up to a year. I wanted this done sooner and got an April surgery date from a query in late February so it suited me. I could have very well gotten it done in Australia otherwise."

Indeed he could have. And no response on whether he has private health insurance.

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